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## Labor & Workforce Development Committee

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### HB 1090

**Brief Description:** Responding to the current economic conditions by temporarily modifying the unemployment insurance program.

**Sponsors:** Representatives Sells, Reykdal and Kenney; by request of Governor Gregoire.

#### Brief Summary of Bill

- Makes changes to the formulas used to calculate the social cost factor for rate year 2011.
- Establishes a cap of 1.22 percent on the flat social rate and reduces the multipliers used for certain graduated social rates.
- Makes changes to the extended benefits program, including a three-year look-back period, for 2011.

**Hearing Date:** 1/14/11

**Staff:** Jill Reinmuth (786-7134).

#### **Background:**

The unemployment compensation system is designed and intended to provide partial wage replacement for workers who are unemployed through no fault of their own. Most covered employers pay contributions (taxes) to finance benefits. Eligible unemployed workers receive benefits based on their earnings in their base year. The Employment Security Department administers this system.

#### Taxes.

An employer's taxes are based on the tax rate assigned to the employer and the taxable wage base. The tax rate includes an experience rated factor, a social cost factor, and when the balance

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in the unemployment insurance trust fund meets certain conditions, a solvency surcharge. (There is currently no solvency surcharge.)

The experience rated factor (or "array calculation factor") is based on the employer's rate class. An employer is assigned to one of 40 rate classes depending on the employer's layoff experience. For rate classes 1 and 40, the rates are 0.00 percent and 5.40 percent, respectively. For rate classes 2 through 39, the rates range from 0.11 percent to 5.30 percent.

The social cost factor is a percentage of costs not directly charged to an employer. First, a flat rate is calculated as the difference between benefits paid and taxes paid, divided by total taxable payroll. The flat rate is adjusted for months of benefits in the unemployment insurance trust fund. (For rate year 2010, the flat rate was 1.22 percent. For rate year 2011, the flat rate is calculated to be 1.70 percent). Then, multipliers are used to calculate graduated rates. For rate classes 1 through 11, the multipliers range from 78 percent to 118 percent. For rate classes 12 through 40, the multiplier is 120 percent.

The tax rate is the sum of the experience rated factor and the social cost factor, and may not exceed 6.0 percent. The tax rate may be capped at 5.4 percent for certain seasonal industries (agricultural crops, livestock, agricultural services, food and seafood processing, fishing, and cold storage).

### Benefits.

During periods of high unemployment, the extended benefits program may provide additional weeks of benefits to individuals who have exhausted other benefits. The indicators of high unemployment are based on the current unemployment rate and how it compares to unemployment rates during a two-year look-back period. The federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the 2010 Act) authorizes states to use a three-year look-back period in place of the two-year look-back period through 2011.

One indicator used to determine whether extended benefits are payable is based on the seasonally adjusted total unemployment rate (SATUR). If the SATUR is at least 6.5 percent for the most recent three months and at least 110 percent of the SATUR for the same period in either of the two preceding calendar years, extended benefits are payable. (Based on this indicator, up to 13 weeks of extended benefits were payable beginning in February 2009. Another indicator made up to 7 additional weeks of extended benefits payable beginning in May 2009, for a total of up to 20 weeks.)

The federal government and the state usually split the cost of extended benefits. The federal government began paying the full cost of extended benefits pursuant to the federal American Recovery and Reinvestment Act of 2009, and will continue doing so through 2011 pursuant to the 2010 Act.

For an individual who is in the training benefits program, training benefits are payable for up to two years beyond the end of the benefit year of the regular claim.

For an individual who is eligible for emergency unemployment compensation, the eligibility period for extended benefits is defined as the period consisting of the week ending February 28,

2009, through the week ending May 29, 2010. The 2010 Act authorizes states to continue to permit an individual to qualify for extended benefits after exhausting emergency unemployment compensation, and for the eligibility period to continue through 2011.

**Summary of Bill:**

Taxes.

The formulas used to calculate the social cost factor are changed for rate year 2011.

For rate classes 1 through 20, the flat rate is capped at 1.22 percent. The multipliers used to calculate the graduated rates are reduced. The range is 40 percent to 116 percent of the flat rate (instead of from 78 percent to 120 percent).

For rate classes 21 through 40, the flat rate is capped in the same manner as for other rate classes. The graduated rate continues to be 120 percent of the flat rate.

Benefits.

The look-back period for indicators of high unemployment used to determine whether extended benefits are payable is changed for 2011. A three-year look-back period may be used instead of the two-year look-back period.

The period during which training benefits are payable is extended. For individuals who are eligible for extended benefits because of the three-year look-back period, training benefits are payable for up to three years beyond the end of the benefit year of the regular claim.

The eligibility period for extended benefits is also extended through 2011. The eligibility period consists of the week ending February 28, 2009, and applies as provided under the federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, as it existed on December 17, 2010, or a subsequent date provided by the Employment Security Department by rule.

**Appropriation:** None.

**Fiscal Note:** Requested on 01/11/2011.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.